



United States Department of Agriculture
Rural Development
Idaho State Office

USDA-RURAL DEVELOPMENT RURAL BUSINESS-COOPERATIVE PROGRAM

Business & Industry (B&I) Loan Guarantee Program

Newsletter – January 2006

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FY 2006 Funding Outlook: Calling All Lenders!

For the first time in recent years, FY 2005 saw B&I funds falling short of demand. In response, **FY 2006 funding has seen a 51% increase from FY '05 levels**, to a level of over \$900 million! Idaho's allocation is at record levels. A great fit, especially for those larger loans, B&I in Idaho is "open for business," and is looking forward to working with you to put together deals that will save and create jobs in rural Idaho, and lower risk and increase profits to your Bank. **B&I in Idaho would be happy to meet with your Bank loan officers to review the program and discuss potential deals.**

B&I Fee Update: Some Good News...Some "Not So Good" News (but the "Not So Good" really isn't all that bad)

The up-front B&I guarantee fee remains at the very affordable rate of 2% of the guaranteed amount (regardless of the loan amount)! For the first time, to help increase the B&I funding levels, the B&I

program has added an **annual renewal fee**. The annual renewal fee, which is set at the start of each year, will be a once-yearly payment due January 31, calculated on the unpaid principal balance as of December 31. For FY '06, the annual renewal fee will be the low rate of .25% [compare to the SBA 7(a) on-going servicing fee of .545, payable monthly]. The servicing fee will not affect your ability to sell the guarantee on the secondary market.

Idaho Leads the Nation!

Idaho leads the nation in B&I loan delinquency rate, with a rate of 0% (as of 9/30/05). Kudos to you, our B&I loan guarantee lending partners in Idaho, for your ability to make, and service, quality commercial loans. On a national level, after "peaking" at a level of 10.29% in '02, the delinquency rate decreased (again) from a level of 7.71% in '04 to a level of **6.72%** as of 9/30/05. That is an excellent rate and bodes well for the future of this program. Thank you!

B&I: It May Be the Program for You

The B&I program remains affordable, flexible, and responsive to you and your customer's needs. Consider these B&I advantages:

- ⇒ Local and familiar program specialists available to help you. The B&I program specialist located near you is ready to meet with you to discuss potential deals. In addition, once you've made the loan, that same specialist is available to discuss with you servicing issues that may come up – no "servicing center," no sending your questions off to a location far, far away. Just fast, friendly, and knowledgeable service from a familiar face!
- ⇒ Flexible loan purposes. The B&I program is available to meet all of your customer's needs, particularly for those larger loans – real estate, equipment, or working capital. Did you know that the B&I program can be used to help finance a commercial real estate deal that is 100% non-owner occupied? Give us a call to discuss your loan proposals.

- ⇒ Flexible loan rates and terms. The B&I program allows you to make a loan for up to 30 years on real estate, 15 years on M&E, and 7 years on working

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"USDA is an equal opportunity provider, employer and lender."

To file a complaint of discrimination write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800)795-3272 (voice) or (202) 720-6382 (TDD).



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capital. In addition, you can combine all 3 loan purposes into a single Note.

⇒ Program features that allow you to maximize your earnings. The B&I loan guarantee (which is 80% of the loan amount, up to \$5.0 million) can be marketed and sold to the highest bidder! One recent sale resulted in a **first year's yield to the Bank of over 61%**, with **subsequent years' yield of nearly 17%**

⇒ (sale included a Secondary Market premium of 10%, and a servicing fee retained by the Bank of 1.75%)! Additionally, for loans that you might be tempted to partner, the B&I program allows you to keep all of that loan in your own portfolio.



See attached 12/5/05 News Release for a detailed description of this exciting B&I project and its surrounding community

For More Information

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USDA-RURAL DEVELOPMENT RURAL BUSINESS-COOPERATIVE SERVICE

Business & Industry (B&I) Loan Guarantees

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Fact Sheet

(1/10/06)

Program Goal

Encourage the commercial financing of rural business, thereby:

- * Creating and saving rural jobs.
- * Improving the economic and environmental climate of rural communities.
- *The B&I Program is lender-driven. RBS guarantees the loan rather than lending directly. A commercial lender requests the B&I guarantee and, if approved, it makes (and services) the loan.*

Type of Assistance

Federal guarantees for lenders on their rural business loans:

- 80 percent (maximum) guarantee on loans of \$0-5 million
- 70 percent (maximum) guarantee on loans of \$5-10 million.
- 60 percent (maximum) guarantee on loans of \$10-25 million.

Lender Benefits

- The guaranteed portion of the loan is protected against loss by a Federal guarantee.
- The guaranteed portion of the loan can be sold on the secondary market.
- The guaranteed portion of the loan does not count against lending limits.
- B&I guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.

Size of Loans

- No minimum.
- Maximum loan is \$10 million (special circumstances can justify higher).

Interest Rate, Term, Payment Structure, and Fees

- Rate: Lender's customary commercial interest rate - negotiated by lender & business.
Fixed or variable (but not more often than quarterly) tied to a published base rate.
- Term: Working Capital - 7 years maximum.
Equipment - 15 years maximum.
Real Estate - 30 years maximum.
- Structure: Balloons are not permitted. Reduced payments may be scheduled in the first 3 years.
- Fees: Lender's reasonable and customary fees - negotiated by lender & business.

Authorized Loan Purposes

- Business asset acquisition, construction, repair, modernization, and development.
- Real estate, buildings, equipment, inventory, supplies, & working capital (NO lines of credit).
- Loan fees & costs, packaging fees, professional services, and feasibility study costs.
- Debt refinancing in certain cases.

Loan Limitations

- Construction projects - Construction loan funds should not be advanced until RBS has approved the project.
- Commercial lease projects - Need not be owner-occupied, but must have enough committed tenants to evidence positive cash flow.
- Ineligible businesses include:
 - Production agriculture (except when linked to agricultural processing & marketing businesses).
(Note: Nursery, forestry, and aquaculture operations are eligible.)
 - Gaming facilities - Golf Courses - Lending, investment, and insurance companies.
 - Projects involving more than \$1 million and the relocation of 50 or more jobs.

Lender Eligibility

- Any Federal or State chartered bank; Farm Credit System; Bank of Cooperatives; bank-holding company's mortgage company; credit union; or insurance company.
- Lender must be subject to government credit examinations and in good standing.
- Lender's officers/directors/owners have no substantial financial interest in the borrower.

Borrower Eligibility

Most types of enterprises qualify - manufacturing, wholesale, retail, service.

Project must be in a rural area - outside the immediate influence of a 50,000 + population city.

Proprietorships, partnerships, corporations, nonprofits, cooperatives, tribes, or political subdivisions.

Majority ownership by US citizens or permanent residents.

Less than 20 percent ownership by government or military employees.

Good Credit history.

Must have tangible balance sheet equity at loan closing/project completion of:

10-20 percent or more (for existing businesses).

20 percent or more for new businesses.

40 percent minimum for energy and biobased businesses.

Inability to get credit elsewhere is NOT a requirement.

Security Requirements

The proposed operation must have realistic repayment ability.

There must be adequate collateral to protect the Lender and RBS. Lender should discount collateral consistent with sound loan to value ratios. Typical discount factors are:

Real-estate - using 80 percent or less of the appraised value.

Chattels - using 70-75 percent or less of the appraised value.

Accounts receivable (< 90 days) - using 60 percent or less of value.

Inventory - using 60 percent or less of the value.

Insurance:

Hazard insurance on collateral (*lesser* of loan amount *or* depreciated replacement value).

Life insurance (decreasing term OK) on principals/key employees - amount negotiated.

Personal/corporate guarantees:

Typically from all proprietors, partners (except limited partners), or major (20 percent or more interest) shareholders.

Special Requirements

A feasibility study by a recognized, independent consultant may be required.

Annual audited financial statements are generally required for loans in excess of \$3 million and when other special circumstances warrant an audit.

A 2% fee on the guaranteed portion of the loan is paid to RBS at the time the guarantee is issued.

A ¼% Annual Renewal Fee, based on the outstanding principal loan balance as of December 31 of each year, is paid RBS annually.

Application Process

Lender & business submit a joint preapplication to RBS, indicating a willingness to make the loan provided a B&I guarantee is approved.

RBS meets with all parties at the project site, and then makes a preliminary determination of project eligibility, normally within 15 days.

Lender & business complete their application.

From RBS receipt of complete application, approval takes less than 60 days.

Loans up to \$5 million are approved locally; larger ones are reviewed in Washington D.C.

RBS issues a conditional commitment, approving a guarantee subject to conditions.

After meeting RBS's conditions, the lender may close the loan and request the guarantee.

RBS issues the guarantee after verifying all conditions are met and collecting guarantee fee.

For More Information

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NEWS RELEASE

Date: December 5, 2005
For Immediate Release

Contact: Candace Moore, Public Information Coordinator
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NOTICING THE DIFFERENCE IN CLEARWATER COUNTY

The face of Orofino, in Clearwater County, has experienced a transformation. John Vaage of AmericanWest Bank puts it this way when speaking of the changes happening there:

“The best part of this story is job creation and retention. Here are the numbers: Brookside (senior housing facility) 39 employees, Lodge at River’s Edge (Best Western Motel) 29, Dining on the Edge (restaurant) 24, Konkolville Lumber (mill) 85. You can’t overestimate the importance of 177 jobs in a town of 3,240.

Another great aspect is the physical transformation of Orofino. A junkyard on the banks of the Clearwater River became a destination motel and restaurant that will pump economic life into the community. A vacant lot (site of the town’s last brothel) became a 56-unit senior housing facility that enables its 62 residents to continue to live close to family and friends.

These are the kind of projects that break trail for economic development. More growth will follow in their wake.”

“The improvements are due to the efforts and ‘roll up the shirt sleeves’ commitment of local leaders and community minded business owners who didn’t give up on their hometowns,” said Senator Larry Craig. “They were active in seeking ways to improve the condition and employment outlook for Clearwater County.”

Through USDA’s Rural Development Business & Industry Loan Guarantee Program, over \$7.1 million in loan guarantees have been made to AmericanWest Bank for the restaurant, lumber mill, senior housing facility, and motel. Other USDA RD programs have contributed over \$100,000 in grant funds, including a \$25,183 grant in June of 2005 to the Clearwater Economic Development Association (CEDA) in Lewiston, which added much needed dollars to their micro-loan revolving fund.

On Wednesday, December 7th, USDA Rural Development will present a check representing a grant in the amount of \$5,064 to the City of Pierce. This grant will be used to pay for a design plan that will install a high speed telecommunication framework to the business district in that City. In May of 2005, Pierce also received a grant for \$424,000 and a USDA RD Direct Water and Waste loan for \$1,200,000 which is being used to upgrade the existing water distribution system and make modifications to the treatment plant. Chris Kuykendall of Clearwater County Economic Development states: “The support USDA Rural Development has shown has helped drive business expansion and growth in Clearwater County. As an example, CEDA’s new equipment leasing program established with RBEG funds has expanded ASE Signs, Inc., ability to increase production...and the upgraded water system will increase the quality of life for every resident and business owner as well as bring fire flow up to code.”

Mike Field, Idaho Director for USDA Rural Development states, “We are always glad to hear a success story like this. Clearwater County exemplifies what happens when communities work together to create economic growth. On behalf of President Bush we thank Clearwater County for allowing us to be part of their economic team.”

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